

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**Radcliff, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2011**

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# Hardin County Water District No. 1

*Serving Radcliff and Hardin County for Over 50 Years*

1400 Rogersville Road  
Radcliff, KY. 40160

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March 20, 2012

TO: Hardin County Water District No. 1  
Board of Commissioners

**SUBJECT: 2011 Annual Report & Managements's Discussion and Analysis**

This report is a joint effort of our staff and Ray, Foley, Hensley & Co, PLLC, Certified Public Accountants. This is the seventh year we have retained this firm to complete our annual audit. This report includes the Management Analysis, the Independent Auditor's Report and the basic financial statements of the District.

I would like to recognize the contribution of our Finance & Accounting Manager, Mr. Scott Schmuck and his accounting staff, Ms. Stephanie Strange (Accountant) and Ms. Karen Morrison (Accounting Specialist) for their work assisting the auditors in preparing this information. Mr. Bradley Hayes, CPA, was the lead auditor for the firm and lead their field staff to complete the audit.

In several respects, 2011 was a historical year for the District. After a three and a half year process, the Defense Logistics Agency, Department of Defense, approved a 50 year contract for the District to own and operate the Ft. Knox Potable Water System. The contract was signed on September 30<sup>th</sup>, 2011 and operations of the system began on February 1, 2012.

In early 2008, we entered into a partnership with the Louisville Water Company ("LWC") to pursue this contract. LWC funded the proposal development process, and was an integral part of the proposal pricing and development. This January, we entered into an Operating Agreement with LWC. Under this agreement, LWC will operate the two water treatment plants at Ft. Knox, oversee water quality monitoring and assist with regulatory reporting.

The addition of this system will increase operating revenues for the District by \$4.3 million (+40%). In the first five years of the contract, an additional \$29 million will be paid to the District as contributed capital for numerous construction projects, rehabilitation projects, studies and recovery of start-up equipment and administrative expenses. During the ten year period ending in 2012, District operating revenues have increased 360%.

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## ***Financial Performance & Highlights***

Consolidated Financial Performance: Our financial reports include statements for four distinct enterprise utility funds; Water, Ft. Knox Sanitary Sewer, Ft. Knox Storm sewer and Radcliff sewer. This letter first reviews the overall consolidated financial highlights of the year, with more specific key items by utility.

For the year, gross plant assets increased by \$4,465,788(+ 2.9% [percent changes in parentheses represent change from 2010]). Total net assets increased by \$3,511,531 (+ 5.6%). Customer payments for new taps decreased by about 45% due to slowed new home and commercial construction compared to 2010.

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Total revenues, including interest income, decreased by \$264,056 (- 2.3%) due to 2011 being the highest precipitation year on record for Kentucky, which decreases water and sewer revenues and increases most operating expenses. Operating income before depreciation decreased to \$3,514,231 (- 4.5%) and net income after depreciation (and net of non-operating income and expenses) decreased by \$353,239 to \$689,143 (- 34%). This amount was 6.3% (- 34%) of total operating revenues. Total net assets at the end of the year were \$66,726,219 (+ 5.6%).

Cash used for capital construction was \$3,843,277 (- 30%) of which 51% was provided by government grants (both Kentucky and U.S. Government/Dept. of Defense). Principal payments to reduce bond debt were \$718,447 (- 64%) and at year end the consolidated outstanding debt principal was \$11,394,083 (- 6%). Total working capital (unrestricted cash + investments) at year end increased by 22% to \$6,143,387. Of all reserves (cash + investments) 76% (+ 12%) were unrestricted and available as working capital for capital construction or operations. At the beginning of 2012 we have a total of \$14,902,023 of available state or federal grant funding for future capital construction projects.

Individual Fund Highlights:

Water Fund: During 2011, we recorded over 72 inches of rain at our Pirtle Spring Water Treatment Plant. This is a historical high, almost 40% more than an average year. This amount of rainfall significantly lowers customer water use and water revenues. Water sales for the year ended up 8.2% less than budgeted (- \$331,352) and 4% less than 2010. Total operating expenses (excluding debt interest and depreciation) were 5.7% less than budgeted. Net income after depreciation and interest expense decreased by 15% from 2010, mostly due to the decrease in water sales. Net assets increased by 3.5%. The bond coverage ratio was 2.91 which is 142% more than the required 1.20 (+ 11% from 2010).

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues increased by 1.3%. Total operating income, before depreciation expense increased by 3.5% to \$1,187,812. Total net assets increased by 4.5%. Total expended for construction was \$1,001,897 (- 47%) of which 44% was provided by contributed capital (direct grants) from the Government. Working capital increased by 50% to \$2,257,451 which is available for future Ft. Knox sewer related capital projects and improvements. Our engineering manager has numerous projects in design and process which will deplete a large portion of these reserves in the next year.

Radcliff Sewer: Total revenues (including interest income) was \$3,522,095 (- 3.3%) which was 5.1% below revenue estimates, due to high rainfall explained below. Total operating expenses (including depreciation) were 1.4% less than budgeted. Total net assets increased 8.5% to \$22,652,068 and at year end we had construction in progress assets of \$1,608,776 (- 12%). At year end the total cash & investment reserve balance was \$3,174,168 (- 9.7%) of which 89% was unrestricted and available for capital construction or operations. At year end, a total of \$3,666,672 in state grants are available for future capital construction projects. The fund had an operating income before depreciation and debt interest of \$831,368 (- 13%) with a net operating loss of \$79,952 (2.3% of revenues) after those expenses compared to a 2010 net positive income of \$168,708.

While this loss can mostly be attributed to much higher pumping and treatment from excessive rainfall, and subsequent equipment repairs and maintenance, the District has a consultant working on finalizing a rate study so any changes approved by the Board are anticipated to be filed during 2012.

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### ***Operational Changes & Statistics***

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During 2011 a total of 1,030 MG (million gallons) of water was treated (+ 1%) and a total of 46.5 MG was purchased for resale (- 44%). Total water delivered to the system was 1,034.8 MG which was 6.3% less than the prior year. The maximum demand day was 3.801 MG (- 6.8%) and occurred on 8-June. The average daily water demand for the year was 2.835 MG (- 6.3%). A total of 97 new water services were installed, down 26% from 2010. Wholesale customers purchased 331.2 MG (- 8.6%), which was equivalent to 32% of total water sales volume (- 16%).

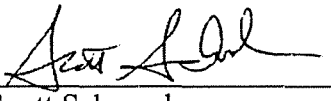
The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,660.9 MG (+ 19%), up from 2010 due to the high rainfall which increases inflow and infiltration into the sewer collection system. This resulted in an average daily flow of clean, recycled water into streams of 4.550 MG.

During the year, the Finance & Accounting staff also managed a major project to install a new Financial & Accounting software system. The Microsoft Dynamics GP<sup>®</sup> system replaces multiple re-entry of many accounting entries which required independent spreadsheet based financial statements and reports. The new system integrates directly to the general ledger and saves many hours for month end reporting and improves accuracy of financial information. The system conversion and testing was completed in early, 2012, with additional future modules to be added later this year.

At present we have 39 construction projects in either preliminary or final design and construction. During 2012, several other Ft. Knox Water capital projects will be added as well. The District, its Board and staff face new challenges and exciting changes as we look forward to new endeavors and improving the reliability and functionality of our utility systems through best practice, asset management systems.

Sincerely,

  
\_\_\_\_\_  
Mr. Jim Bruce  
General Manager

  
\_\_\_\_\_  
Mr. Scott Schmuck  
Finance & Accounting Manager



Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Hardin County Water District No. 1  
Radcliff, Kentucky

Stephen R. Allen, CPA/PFS  
Dennis H. England, CPA  
Michael D. Foley, CPA  
Lyman Hager, Jr., CPA/PFS  
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

We have audited the accompanying combined balance sheet of Hardin County Water District No. 1 as of December 31, 2011 and the related combined statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hardin County Water District No. 1 as of December 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 14, 2012 on our consideration of the Hardin County Water District No.1's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 3 and 17 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audits were performed for the purpose of forming an opinion on the financial statements of the Hardin County Water District No.1, taken as a whole. The other supplemental information and schedules on pages 21 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley, & Company, PLLC

March 14, 2012

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**COMBINED BALANCE SHEET**  
**December 31, 2011**

<b>ASSETS</b>	<b>Water</b>	<b>Sewer Total</b>	<b>Storm Water</b>	<b>2011 Total</b>	<b>2010 Total</b>
<b>Current assets</b>					
Cash and cash equivalents	\$ 305,600	\$ 4,413,855	\$ 682,535	\$ 5,401,990	\$ 4,450,228
Short-term certificates of deposit	741,397	-	-	741,397	611,148
Customer accounts receivable, net	255,481	458,690	39,816	753,987	1,246,793
Grant receivable	84,806	76,822	-	161,628	363,401
Interest receivable	996	523	-	1,519	4,268
Due from other funds	11,599	287,516	9,577	308,692	113,628
Inventory - materials and supplies	283,719	12,373	-	296,092	440,623
Prepaid expenses	66,664	49,985	432	117,081	109,079
<b>Total current assets</b>	<b>1,750,262</b>	<b>5,299,764</b>	<b>732,360</b>	<b>7,782,386</b>	<b>7,339,168</b>
<b>Non-current assets</b>					
Certificates of deposit	-	-	-	-	589,285
Restricted assets - reserve funds	1,586,094	335,230	-	1,921,324	1,795,275
<b>Total non-current assets</b>	<b>1,586,094</b>	<b>335,230</b>	<b>-</b>	<b>1,921,324</b>	<b>2,384,560</b>
Radcliff sewer acquisition costs	-	211,203	-	211,203	220,303
<b>Property, plant and equipment</b>					
Land and easements	273,045	9,544	-	282,589	282,589
Plant and lines	36,014,189	110,680,787	1,081,974	147,776,950	141,943,534
Vehicles and equipment	4,465,361	2,051,075	149,294	6,665,730	6,253,494
Construction in progress	571,712	2,334,274	17,735	2,923,721	4,703,585
<b>Total</b>	<b>41,324,307</b>	<b>115,075,680</b>	<b>1,249,003</b>	<b>157,648,990</b>	<b>153,183,202</b>
Less accumulated depreciation	(12,036,140)	(75,773,746)	(93,921)	(87,903,807)	(85,547,544)
<b>Total property, plant, and equipment</b>	<b>29,288,167</b>	<b>39,301,934</b>	<b>1,155,082</b>	<b>69,745,183</b>	<b>67,635,658</b>
<b>TOTAL ASSETS</b>	<b>\$ 32,624,523</b>	<b>\$ 45,148,131</b>	<b>\$ 1,887,442</b>	<b>\$ 79,660,096</b>	<b>\$ 77,579,689</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 237,688	\$ 431,544	\$ 37,961	\$ 707,193	\$ 1,629,930
Due to other funds	297,093	11,087	512	308,692	113,628
Customers' deposits	162,667	124,214	-	286,881	289,888
Accrued expenses	75,120	46,608	10,982	132,710	165,225
Reserve for unclaimed funds - escheatment	5,262	-	-	5,262	7,091
Deferred rent revenue	643	-	-	643	-
Line of credit	32,683	-	-	32,683	-
<b>Liabilities payable from restricted assets:</b>					
Current portion of long-term debt	500,000	268,362	-	768,362	718,448
Accrued interest on long-term debt	63,267	7,030	-	70,297	73,222
<b>Total current liabilities</b>	<b>1,374,423</b>	<b>888,845</b>	<b>49,455</b>	<b>2,312,723</b>	<b>2,997,432</b>
<b>Long-term liabilities</b>					
Bonds payable	8,785,000	1,840,721	-	10,625,721	11,394,082
Less unamortized discount and expenses	(178,279)	-	-	(178,279)	(193,827)
Compensated absences	47,311	-	-	47,311	37,087
<b>Long-term liabilities, net</b>	<b>8,654,032</b>	<b>1,840,721</b>	<b>-</b>	<b>10,494,753</b>	<b>11,237,342</b>
<b>Other liabilities</b>					
Customer advances for construction	126,401	-	-	126,401	130,227
<b>Total liabilities</b>	<b>10,154,856</b>	<b>2,729,566</b>	<b>49,455</b>	<b>12,933,877</b>	<b>14,365,001</b>
<b>Net assets</b>					
Invested in capital assets	20,085,496	37,185,821	1,155,082	58,426,399	55,716,955
Restricted	1,586,094	335,230	-	1,921,324	1,795,275
Unrestricted	798,077	4,897,514	682,905	6,378,496	5,702,458
<b>Total net assets</b>	<b>22,469,667</b>	<b>42,418,565</b>	<b>1,837,987</b>	<b>66,726,219</b>	<b>63,214,688</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 32,624,523</b>	<b>\$ 45,148,131</b>	<b>\$ 1,887,442</b>	<b>\$ 79,660,096</b>	<b>\$ 77,579,689</b>

The accompanying notes are an integral  
part of the financial statements.



**HARDIN COUNTY WATER DISTRICT NO. 1**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**for the year ended December 31, 2011**

	Water	Sewer Total	Storm Water	2011 Total	2010 Total
<b>OPERATING REVENUE</b>					
Metered water sales	\$ 3,049,775	\$ -	\$ -	\$ 3,049,775	\$ 3,150,969
Wholesale sales	635,903	-	-	635,903	695,469
Sewer billing contract revenue	8,612	-	-	8,612	8,589
Sewer service revenue	-	6,143,337	-	6,143,337	6,143,840
Stormwater service revenue	-	-	469,008	469,008	481,425
Penalties, service fees and reimbursements	291,411	202,689	-	494,100	523,575
<b>Total operating revenue</b>	<u>3,985,701</u>	<u>6,346,026</u>	<u>469,008</u>	<u>10,800,735</u>	<u>11,003,867</u>
<b>OPERATING EXPENSES</b>					
Treatment	841,684	-	-	841,684	812,152
Distribution	648,360	-	-	648,360	642,371
Customer service	280,777	476,050	-	756,827	785,649
General & administrative expenses	529,157	4,011,541	-	4,540,698	4,587,217
Purchased water	75,939	-	-	75,939	132,748
General maintenance	77,861	-	-	77,861	61,678
Source of supply	36,872	-	-	36,872	35,819
Stormwater	-	-	308,263	308,263	268,089
<b>Total operating expense</b>	<u>2,490,650</u>	<u>4,487,591</u>	<u>308,263</u>	<u>7,286,504</u>	<u>7,325,723</u>
<b>Operating income before depreciation</b>	1,495,051	1,858,435	160,745	3,514,231	3,678,144
Depreciation and amortization expense	<u>(996,715)</u>	<u>(1,436,108)</u>	<u>(34,322)</u>	<u>(2,467,145)</u>	<u>(2,333,339)</u>
<b>OPERATING INCOME</b>	498,336	422,327	126,423	1,047,086	1,344,805
Non-operating income (expenses)					
Interest income	40,909	50,836	5,599	97,344	158,268
Interest expense	(305,120)	(93,453)	-	(398,573)	(471,958)
Bad debts recovered	-	9,449	-	9,449	9,355
Gain (loss) on sale of equipment	(17,260)	(48,903)	-	(66,163)	725
Realized gain on sale of securities	-	-	-	-	1,187
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	216,865	340,256	132,022	689,143	1,042,382
Capital Contributions					
Grants	144,170	1,383,176	-	1,527,346	2,750,174
Tap fees	64,182	8,700	-	72,882	131,579
Customer contributions	330,375	891,785	-	1,222,160	1,942,606
Special item - loss on disposal of plant	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(475,401)</u>
<b>CHANGE IN NET ASSETS</b>	755,592	2,623,917	132,022	3,511,531	5,391,340
Net assets, beginning of year	<u>21,714,075</u>	<u>39,794,648</u>	<u>1,705,965</u>	<u>63,214,688</u>	<u>57,823,348</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 22,469,667</u>	<u>\$ 42,418,565</u>	<u>\$ 1,837,987</u>	<u>\$ 66,726,219</u>	<u>\$ 63,214,688</u>

The accompanying notes are an integral  
part of the financial statements.

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**COMBINED STATEMENT OF CASH FLOWS**  
**for the year ended December 31, 2011**

	Water	Sewer Total	Storm Water	2011 Total	2010 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 4,407,953	\$ 6,348,902	\$ 742,778	\$ 11,499,633	\$ 10,861,031
Payments to suppliers	(1,246,290)	(4,945,108)	(431,198)	(6,622,596)	(5,376,561)
Payments for employee services and benefits	(1,492,648)	-	-	(1,492,648)	(1,526,685)
<b>Net cash provided by operating activities</b>	<b>1,669,015</b>	<b>1,403,794</b>	<b>311,580</b>	<b>3,384,389</b>	<b>3,957,785</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Contributions in aid of construction	208,352	1,828,186	-	2,036,538	3,965,166
Proceeds from sale of equipment	15,547	3,000	-	18,547	28,331
Acquisition and construction of capital assets	(993,298)	(2,812,497)	(37,482)	(3,843,277)	(5,493,145)
Principal paid on long-term debt	(460,000)	(258,447)	-	(718,447)	(2,023,899)
Proceeds from borrowings	32,683	-	-	32,683	-
Payments on line of credit	-	-	-	-	(2,090,315)
Interest paid on long-term debt	(307,183)	(94,315)	-	(401,498)	(487,960)
Cash (paid) received under advance construction contract	(3,826)	-	-	(3,826)	(16,189)
<b>Net cash (used in) capital and related financing activities</b>	<b>(1,507,725)</b>	<b>(1,334,073)</b>	<b>(37,482)</b>	<b>(2,879,280)</b>	<b>(6,118,011)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income	40,847	53,647	5,599	100,093	185,082
Redemption of investments	(2,581,452)	770,165	-	(1,811,287)	5,387,222
Purchase of investments	2,493,077	(335,230)	-	2,157,847	(1,384,566)
<b>Net cash provided by (used in) investing activities</b>	<b>(47,528)</b>	<b>488,582</b>	<b>5,599</b>	<b>446,653</b>	<b>4,187,738</b>
<b>NET INCREASE IN CASH</b>	<b>113,762</b>	<b>558,303</b>	<b>279,697</b>	<b>951,762</b>	<b>2,027,512</b>
Cash and cash equivalents, beginning of year	191,838	3,855,552	402,838	4,450,228	2,422,716
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 305,600</b>	<b>\$ 4,413,855</b>	<b>\$ 682,535</b>	<b>\$ 5,401,990</b>	<b>\$ 4,450,228</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income	\$ 498,336	\$ 422,327	\$ 126,423	\$ 1,047,086	\$ 1,344,805
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization expense	996,715	1,436,108	34,322	2,467,145	2,333,339
Change in assets and liabilities:					
Accounts receivable	144,971	266,978	282,630	694,579	(138,009)
Prepaid expenses	6,168	(13,738)	(432)	(8,002)	38,477
Due from other funds	40,750	(226,954)	-	(186,204)	77,394
Inventory	156,904	(12,373)	-	144,531	(190,502)
Accounts payable	(413,089)	(384,152)	(122,503)	(919,744)	491,023
Accrued expenses	5,178	(45,005)	-	(39,827)	83,641
Due to other funds	236,531	(37,148)	(8,860)	190,523	(82,221)
Other payables	(3,449)	(2,249)	-	(5,698)	(162)
<b>Net cash provided by operating activities</b>	<b>\$ 1,669,015</b>	<b>\$ 1,403,794</b>	<b>\$ 311,580</b>	<b>\$ 3,384,389</b>	<b>\$ 3,957,785</b>
<b>Schedule of non-cash capital and financing activities:</b>					
Contributed water mains from developers	\$ 330,375	\$ -	\$ -	\$ 330,375	\$ 400,384
Construction in process included in accounts payable	\$ 27,394	\$ 69,167	\$ -	\$ 96,561	\$ -

The accompanying notes are an integral  
part of the financial statements

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Hardin County Water District No. 1 (the District) is organized pursuant to provision of Chapter 74 of the Kentucky Revised Statutes in order to provide a water supply for citizens and residents of Radcliff, Kentucky and parts of Hardin, Meade and Breckinridge Counties. The District is regulated by the Kentucky Public Service Commission.

**Reporting Entity**

The Hardin County Water District No. 1's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the Hardin County Water District No. 1.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting.

The District reports all revenue and expenses as operating, except interest income and expense, depreciation and amortization, gains and losses on asset sales or disposals and capital contributions.

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"*.

The District applies all applicable FASB and AICPA pronouncements issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

**Fund Accounting**

The District maintains a Water Fund, Ft. Knox Sewer Fund, Radcliff Sewer Fund and a Ft. Knox Stormwater Fund.

**Accounts Receivable**

The Water Fund's accounts receivable is net of an allowance for uncollectible accounts of \$2,193 as of December 31, 2011. The allowance is increased by charges to bad debts and decreased by write-offs. Management's periodic evaluation of the adequacy of the allowance is based on the District's aged accounts receivable balances. The sewer funds and stormwater fund do not have an allowance for doubtful accounts.

**Interfund Transfers**

The asset "due from other funds" and the liability "due to other funds" represent amounts transferred between the funds owed for personnel and other operating and non-operating expenses.

**Inventory**

The water fund's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance and repairs and new water lines. The sewer fund's inventory consists of equipment. The inventory is stated at the lower of cost (first-in, first-out method) or market.

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Restricted Assets**

The water and sewer funds' restricted assets consist of U.S. Treasury Notes and Bonds, certificates of deposit, money market funds, and non-interest-bearing accounts. The carrying value of the investments approximates market value.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used.

**Investments**

It is the policy of the District to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all state statutes and District regulations governing the investment of public funds. The carrying value of the investments approximates market value.

**Property and Equipment**

The water, sewer and stormwater fund's property and equipment assets are recorded at cost or, if contributed, at donor cost or appraised value at date of acquisition. Interest relating to the financing of projects under construction is capitalized due to the District's capital financing plans and rate-setting methodology. Depreciation is computed by the straight-line method based on the estimated useful life of the depreciable property. Plant and lines are capitalized with lives ranging from 5-65 years and vehicles and equipment are capitalized with lives ranging from 5-35 years. Land is not subject to depreciation. Expenditures for maintenance and repairs are charged to expense as incurred whereas expenditures, including associated labor, for installation, renewals or betterments are generally capitalized.

**Line of Credit**

The District maintains a line of credit through Cecilian Bank in the amount of \$2,500,000 designated for use in construction projects if needed.

**Amortization**

The water and sewer funds' bond discounts and issue costs are being amortized using the straight-line method over the life of the bond issue. The sewer funds' City of Radcliff sewer acquisition costs are being amortized using the straight-line method over a period of twenty-five years.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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**NOTE 2 – CASH AND INVESTMENTS**

The Hardin County Water District's deposits and investments at December 31, 2011 were covered entirely by federal depository insurance, by collateral held by the custodial banks in the District's name, or invested in money market and government backed securities.

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States Government or its agencies.

The following is a detail of the District's cash deposit coverage at December 31, 2011:

FDIC insured (or equivalent)	\$ 1,335,854
Collateralized by securities held by the bank in the District's name	5,727,996
United States Treasury Securities and money market funds	<u>1,249,427</u>
Total	<u>\$ 8,313,277</u>

Cash and investments are classified as follows as of December 31, 2011:

Unrestricted:	
Cash & cash equivalents:	
Revenue fund	\$ 738,502
Other	<u>4,663,488</u>
	5,401,990
Short-term investments:	
Certificates of deposit	<u>741,397</u>
Total unrestricted	<u>6,143,387</u>
Restricted:	
Long-term investments:	
1997 KIA Debt service reserve – Certificate of deposit	335,230
2002 B&I redemption fund – FMV	86,667
2005 B&I redemption fund – FMV	164,172
2005 Debt service reserve – FMV	584,544
Depreciation fund – FMV	<u>750,711</u>
Total restricted	<u>1,921,324</u>
Total cash & investments	<u>\$ 8,064,711</u>

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 3 – CAPITAL ASSETS**

A summary of capital asset activity during the fiscal year follows:

	Balance Jan 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
Capital assets not depreciated:				
Land and easements	\$ 282,589	\$ -	\$ -	\$ 282,589
Construction in process	4,703,585	2,606,928	4,386,792	2,923,721
Capital assets that are depreciated:				
Plant and lines	141,943,534	5,967,452	134,037	147,776,949
Vehicles and equipment	<u>6,253,494</u>	<u>431,310</u>	<u>19,073</u>	<u>6,665,731</u>
Total plant and equipment	153,183,202	9,005,690	4,539,902	157,648,990
Less: accumulated depreciation	<u>85,547,544</u>	<u>2,434,892</u>	<u>78,629</u>	<u>87,903,807</u>
Plant and equipment, net	<u>\$ 67,635,658</u>	<u>\$ 6,570,798</u>	<u>\$ 4,461,273</u>	<u>\$ 69,745,183</u>

Depreciation expense for all combined funds totaled \$2,434,892 for the year ended December 31, 2011.

**NOTE 4 - COMPLIANCE WITH BOND INDENTURE**

Under covenants of the bond ordinance, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

**Bond and Interest Redemption Funds** – There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2005 issue. These funds are used to pay maturing bond and interest coupons on the aforementioned issue.

**Bond Reserve Fund** - This fund shall receive, on a monthly basis, within five years of the issue date, an amount equal to the average annual principal and interest requirements on the 2005 issue outstanding. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. At December 31, 2011, the District had reserves of \$584,544 invested with the bond custodian. At March 1, 2012, the requirement for this reserve will total \$587,215.

**Depreciation Fund** - This fund receives \$8,500 monthly after the above transfers have been made until the total sum of \$750,000 has been established and maintained. This fund also receives the proceeds from the sale of any property and equipment. This fund may be used to purchase new or replacement property and equipment. Monies from this account are held by the bond custodian. At December 31, 2011, the District was required to fund the account in the amount of \$750,000 and the assets in this account totaled \$750,711.

**Operating and Maintenance Fund** - This fund receives, on a monthly basis, the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. Any surplus left, after operating expenses have been met, may be added to Debt Service Reserve.

**Wastewater Revolving Loan Reserve** – This loan requires the District to fund a reserve account in the amount of \$310,000. At December 31, 2011, the District had funded this reserve in the amount of \$335,230.

**2002 Adjustable Revenue Bonds** – The District filed Supplement No. 1 to Trust Indenture dated April 1, 2010. This supplement allows for a letter of credit to be issued by Cecilian Bank via a wrap around letter of credit from the Federal Home Loan Bank of Cincinnati as collateral for the original bond issue. As a result, the District is no longer required to fulfill the debt service reserve and depreciation fund requirements with The Bank of New York Mellon Trust Company however, the District continues to carry \$86,667 in an account for this bond issue.

The bond ordinance calls for "net annual revenues" to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2011, the water fund ratio was 2.91.

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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**NOTE 5 – LONG-TERM LIABILITIES**

Some of the construction costs of the District's water and sewer facilities have been financed by issuance of revenue bonds and revolving notes authorized under Kentucky Revised Statutes.

Bonds payable of the water and Radcliff sewer funds consists of the following at December 31, 2011:

2005 Revenue Bonds, various semi-annual principal and interest payments at 4.125% through September 1, 2025, secured by the revenues of the District.	\$ 6,135,000
2002 Revenue Bonds, various semi-annual principal payments with monthly interest payments at a variable rate which is to be the lowest interest rate on the determination date at which the bonds can be remarketed at par for the interest rate period through September 1, 2022, secured by a letter of credit issued from Cecilian Bank.	3,150,000
1997 KIA Wastewater Revolving Loan, various semi-annual principal and interest payments at a rate of interest of 3.8% through December 1, 2018, secured by the revenues of the District.	<u>2,109,083</u>
Total debt	11,394,083
Less: current portion	<u>768,362</u>
Total long-term debt	<u>\$ 10,625,721</u>

In 1998, the District refunded its 1989 and 1992 issues through the issuance of a 1998 fixed rate refunding issue. The District defeased these bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. The trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

In 1998 the District issued variable rate bonds to fund the construction of the new service center and the Fort Knox interconnect project. In 2005 the District issued fixed rate bonds to fund the construction of the New Salem Church Road project and to refund the 1998 variable rate bonds. The District paid off the 1998 bond issue two years early, in September 2010, as approved by the Board of Commissioners during its May 18<sup>th</sup> 2010 meeting, saving the district approximately \$51,000 in interest.

During April 2008, the District assumed two debt issues as part of the Radcliff sewer acquisition. The District assumed a 1997 Wastewater Revolving Loan through the Kentucky Infrastructure Authority and a 2001 refunding revenue bond issue through the Kentucky League of Cities. The district paid off the 2001 issue during 2010.

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 5 – LONG-TERM LIABILITIES, continued**

Bond maturities and sinking fund requirements for the water fund in each of the next five years are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 500,000	\$ 392,258	\$ 892,258
2013	620,000	370,270	990,270
2014	650,000	343,493	993,493
2015	665,000	315,630	980,630
2016	680,000	287,404	967,404
2017-2021	3,730,000	978,554	4,708,554
2022-2025	<u>2,440,000</u>	<u>235,529</u>	<u>2,675,529</u>
	<u>\$ 9,285,000</u>	<u>\$ 2,923,138</u>	<u>\$ 12,208,138</u>

Debt maturities and sinking fund requirements for the Radcliff sewer fund in each of the next five years are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 268,362	\$ 81,705	\$ 350,067
2013	278,656	70,869	349,525
2014	289,345	59,616	348,961
2015	300,445	47,933	348,378
2016	311,970	35,800	347,770
2017-2018	<u>660,305</u>	<u>33,326</u>	<u>693,631</u>
	<u>\$ 2,109,083</u>	<u>\$ 329,249</u>	<u>\$ 2,438,332</u>
Total bond and debt maturities	<u>\$ 11,394,083</u>	<u>\$ 3,252,387</u>	<u>\$ 14,646,470</u>

Changes in long-term liabilities are as follows:

	<b>Balance Jan 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Dec. 31, 2011</b>
Long-term debt	\$ 12,112,530	\$ -	(\$ 718,447)	\$ 11,394,083
Bond amortization	(193,827)	-	15,548	(178,279)
Compensated absences	<u>37,087</u>	<u>10,224</u>	<u>-</u>	<u>47,311</u>
Net long-term liabilities	<u>\$ 11,955,790</u>	<u>\$ 10,224</u>	<u>(\$ 702,899)</u>	<u>\$ 11,263,115</u>

**NOTE 6 – LINE OF CREDIT**

The District maintains a \$2,500,000 line of credit that is designated for use in various construction projects if needed. The principal is due September 25, 2012. Accrued interest is payable quarterly at a rate of 3.25%. Changes in the line of credit are as follows:

<b>Balance Jan 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Dec. 31, 2011</b>
<u>\$ -</u>	<u>\$ 32,683</u>	<u>\$ -</u>	<u>\$ 32,683</u>



**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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**NOTE 7 - OTHER LIABILITIES**

The water fund's other liabilities in the amount of \$126,401 at December 31, 2011 represent customers' advances for construction and extension of water mains beyond limits now provided by the District. These advances will be repaid in accordance with the terms of the agreements. The terms call for a portion of the revenue from these waterlines to be refunded to customers.

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9 – RETIREMENT PLAN**

Hardin County Water District No.1 is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 6.00% for employees hired after September 1, 2008. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Participating employers contributed 16.93% of each non-hazardous employee's wages from January 1, 2011 through June 30 and 18.96% from July 1 through December 31, 2011, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 373,637	100%
2010	\$ 330,866	100%
2009	\$ 291,223	100%

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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**NOTE 10 – RECLASSIFICATIONS**

Certain items on the balance sheet have been reclassified in the prior year to conform to the current year presentation.

**NOTE 11 – SUBSEQUENT EVENTS**

The District has evaluated and considered the need to recognize or disclose subsequent events through March 14, 2012, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2011, have not been evaluated by the District.

Effective February 1, 2012, the District purchased that assets and took over operations of the Fort Knox water system. The water system was formerly operated by the United States Army. In order to accomplish this transaction, the District implemented a purchase agreement with Louisville Water to increase supply when needed.

## SUPPLEMENTARY INFORMATION

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**WATER FUND**  
**for the year ended December 31, 2011**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 3,348,430	\$ 3,348,430	\$ 3,049,775	\$ (298,655)
Wholesale sales	668,600	668,600	635,903	(32,697)
Sewer billing contract revenue	8,500	8,500	8,612	112
Penalties, service fees and reimbursements	<u>303,800</u>	<u>303,800</u>	<u>291,411</u>	<u>(12,389)</u>
<b>Total operating revenue</b>	<u>4,329,330</u>	<u>4,329,330</u>	<u>3,985,701</u>	<u>(343,629)</u>
<b>OPERATING EXPENSES</b>				
Treatment	915,200	915,200	841,684	(73,516)
Transmission and Distribution	702,930	702,930	648,360	(54,570)
Customer service	258,958	258,958	280,777	21,819
General & administrative expenses	538,094	538,094	529,157	(8,937)
Purchased water	119,776	119,776	75,939	(43,837)
General maintenance	76,741	76,741	77,861	1,120
Source of supply	<u>28,125</u>	<u>28,125</u>	<u>36,872</u>	<u>8,747</u>
<b>Total operating expense</b>	<u>2,639,824</u>	<u>2,639,824</u>	<u>2,490,650</u>	<u>(149,174)</u>
<b>Operating income before depreciation</b>	1,689,506	1,689,506	1,495,051	(194,455)
Depreciation and amortization expense	<u>(874,101)</u>	<u>(874,101)</u>	<u>(996,715)</u>	<u>(122,614)</u>
<b>OPERATING INCOME</b>	815,405	815,405	498,336	(317,069)
<b>Non-operating income (expenses)</b>				
Interest income	30,700	30,700	40,909	10,209
Interest expense	(325,102)	(325,102)	(305,120)	19,982
Loss on sale of equipment	<u>8,199</u>	<u>8,199</u>	<u>(17,260)</u>	<u>(25,459)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	529,202	529,202	216,865	(312,337)
Government contributions	3,572,000	3,572,000	144,170	(3,427,830)
Tap Fees	182,000	182,000	64,182	(117,818)
Customer Contribution	<u>-</u>	<u>-</u>	<u>330,375</u>	<u>330,375</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 4,283,202</u>	<u>\$ 4,283,202</u>	<u>\$ 755,592</u>	<u>\$ (3,527,610)</u>

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**FORT KNOX SEWER FUND**  
**for the year ended December 31, 2011**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 2,843,117	\$ 2,843,117	\$ 2,845,040	\$ 1,923
Penalties, service fees and reimbursements	<u>3,800</u>	<u>3,800</u>	<u>17,975</u>	<u>14,175</u>
<b>Total operating revenue</b>	<u>2,846,917</u>	<u>2,846,917</u>	<u>2,863,015</u>	<u>16,098</u>
<b>OPERATING EXPENSES</b>				
Professional services	9,576	9,576	19,330	9,754
Contractual obligations	1,985,441	1,985,441	1,704,405	(281,036)
Allocated expense	-	-	5,042	5,042
Insurance	55,800	55,800	44,214	(11,586)
Customer service	83,856	83,856	52,113	(31,743)
Other	<u>17,028</u>	<u>17,028</u>	<u>10,844</u>	<u>(6,184)</u>
<b>Total operating expense</b>	<u>2,151,701</u>	<u>2,151,701</u>	<u>1,835,948</u>	<u>(315,753)</u>
<b>Operating income before depreciation</b>	695,216	695,216	1,027,067	331,851
Depreciation and amortization expense	<u>(543,502)</u>	<u>(543,502)</u>	<u>(617,348)</u>	<u>(73,846)</u>
<b>OPERATING INCOME</b>	151,714	151,714	409,719	258,005
Non-operating income (expenses)				
Interest income	18,000	18,000	11,752	(6,248)
Interest expense	<u>(1,500)</u>	<u>(1,500)</u>	<u>(1,263)</u>	<u>237</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	168,214	168,214	420,208	251,994
Government contributions	<u>96,400</u>	<u>96,400</u>	<u>436,310</u>	<u>339,910</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 264,614</u>	<u>\$ 264,614</u>	<u>\$ 856,518</u>	<u>\$ 591,904</u>

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**RADCLIFF SEWER FUND**  
for the year ended December 31, 2011

	Original Budget	Amended Budget	Actual	Variance
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 3,397,100	\$ 3,397,100	\$ 3,298,297	\$ (98,803)
Penalties, service fees and reimbursements	280,774	280,774	184,714	(96,060)
<b>Total operating revenue</b>	<u>3,677,874</u>	<u>3,677,874</u>	<u>3,483,011</u>	<u>(194,863)</u>
<b>OPERATING EXPENSES</b>				
Professional services	15,180	15,180	13,786	(1,394)
Contractual obligations	2,180,221	2,180,221	2,082,650	(97,571)
Allocated expense	-	-	65,728	65,728
Insurance	17,800	17,800	19,466	1,666
Customer service	408,036	408,036	423,937	15,901
System maintenance	93,692	93,692	46,076	(47,616)
<b>Total operating expense</b>	<u>2,714,929</u>	<u>2,714,929</u>	<u>2,651,643</u>	<u>(63,286)</u>
<b>Operating income before depreciation</b>	962,945	962,945	831,368	(131,577)
Depreciation and amortization expense	<u>(805,097)</u>	<u>(805,097)</u>	<u>(818,760)</u>	<u>(13,663)</u>
<b>OPERATING INCOME</b>	157,848	157,848	12,608	(145,240)
Non-operating income (expenses)				
Interest income	35,000	35,000	39,084	4,084
Interest expense	(26,882)	(26,882)	(92,190)	(65,308)
Other (expense)	<u>-</u>	<u>-</u>	<u>(39,454)</u>	<u>(39,454)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	165,966	165,966	(79,952)	(245,918)
Government contributions	5,141,839	5,141,839	1,383,176	(3,758,663)
Customer Contributions	<u>63,165</u>	<u>63,165</u>	<u>464,175</u>	<u>401,010</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 5,370,970</u>	<u>\$ 5,370,970</u>	<u>\$ 1,767,399</u>	<u>\$ (3,603,571)</u>

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET**  
**STORMWATER FUND**  
**for the year ended December 31, 2011**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Stormwater revenue	\$ 469,576	\$ 469,576	\$ 469,008	\$ (568)
<b>Total operating revenue</b>	<u>469,576</u>	<u>469,576</u>	<u>469,008</u>	<u>(568)</u>
<b>OPERATING EXPENSES</b>				
Professional services	2,392	2,392	1,134	(1,258)
Contractual obligations	269,715	269,715	279,001	9,286
Insurance	1,500	1,500	1,698	198
Customer service	23,433	23,433	-	(23,433)
Other	<u>1,960</u>	<u>1,960</u>	<u>26,430</u>	<u>24,470</u>
<b>Total operating expense</b>	<u>299,000</u>	<u>299,000</u>	<u>308,263</u>	<u>9,263</u>
<b>Operating income before depreciation</b>	170,576	170,576	160,745	(9,831)
Depreciation and amortization expense	<u>(26,843)</u>	<u>(26,843)</u>	<u>(34,322)</u>	<u>(7,479)</u>
<b>OPERATING INCOME</b>	143,733	143,733	126,423	(17,310)
Non-operating income (expenses)				
Interest income	<u>9,500</u>	<u>9,500</u>	<u>5,599</u>	<u>(3,901)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	153,233	153,233	132,022	(21,211)
Government contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 153,233</u>	<u>\$ 153,233</u>	<u>\$ 132,022</u>	<u>\$ (21,211)</u>

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**COMBINED SEWER BALANCE SHEETS**  
**December 31, 2011**

	<b>Ft. Knox Sewer</b>	<b>Radcliff Sewer</b>	<b>2011 Total</b>	<b>2010 Total</b>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,574,918	\$ 2,838,937	\$ 4,413,855	\$ 3,855,552
Short-term certificates of deposit	-	-	-	381,914
Customer accounts receivable, net	239,245	219,445	458,690	695,280
Grant receivable	16,485	60,337	76,822	107,210
Interest receivable	1	522	523	3,334
Due from other funds	17,388	270,128	287,516	60,562
Inventory	12,373	-	12,373	-
Prepaid expenses	7,171	42,814	49,985	36,247
Total current assets	<u>1,867,581</u>	<u>3,432,183</u>	<u>5,299,764</u>	<u>5,140,099</u>
Long-term investments				
Restricted assets - reserve funds	-	335,230	335,230	377,940
Radcliff acquisition costs, net	-	211,203	211,203	220,303
Property, plant and equipment				
Land and easements	-	9,544	9,544	9,544
Plant and lines	78,118,835	32,561,952	110,680,787	107,319,772
Vehicles and equipment	1,074,766	976,309	2,051,075	1,872,097
Construction in progress	725,498	1,608,776	2,334,274	2,710,159
Total	79,919,099	35,156,581	115,075,680	111,911,572
Less accumulated depreciation	<u>(61,842,262)</u>	<u>(13,931,484)</u>	<u>(75,773,746)</u>	<u>(74,398,699)</u>
Total property, plant, and equipment	<u>18,076,837</u>	<u>21,225,097</u>	<u>39,301,934</u>	<u>37,512,873</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 19,944,418</b></u>	<u><b>\$ 25,203,713</b></u>	<u><b>\$ 45,148,131</b></u>	<u><b>\$ 43,251,215</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 165,594	\$ 265,950	\$ 431,544	\$ 815,696
Due to other funds	2,317	8,770	11,087	48,235
Customers' deposits	-	124,214	124,214	125,601
Accrued expenses	10,010	36,598	46,608	91,613
Liabilities payable from restricted assets:				
Current portion of long-term debt	-	268,362	268,362	258,448
Accrued interest on long-term debt	-	7,030	7,030	7,892
Total current liabilities	<u>177,921</u>	<u>710,924</u>	<u>888,845</u>	<u>1,347,485</u>
Long-term liabilities				
Bonds payable	-	1,840,721	1,840,721	2,109,082
Total liabilities	<u>177,921</u>	<u>2,551,645</u>	<u>2,729,566</u>	<u>3,456,567</u>
Net assets				
Invested in capital assets	18,076,837	19,108,984	37,185,821	35,145,343
Restricted	-	335,230	335,230	377,940
Unrestricted	<u>1,689,660</u>	<u>3,207,854</u>	<u>4,897,514</u>	<u>4,271,365</u>
Total net assets	<u>19,766,497</u>	<u>22,652,068</u>	<u>42,418,565</u>	<u>39,794,648</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 19,944,418</b></u>	<u><b>\$ 25,203,713</b></u>	<u><b>\$ 45,148,131</b></u>	<u><b>\$ 43,251,215</b></u>



**HARDIN COUNTY WATER DISTRICT NO. 1**  
**COMBINED SEWER STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**for the year ended December 31, 2011**

	<b>Ft. Knox Sewer</b>	<b>Radcliff Sewer</b>	<b>2011 Total</b>	<b>2010 Total</b>
<b>OPERATING REVENUE</b>				
Sewer service revenue	\$ 2,845,040	\$ 3,298,297	\$ 6,143,337	\$ 6,143,840
Penalties, service fees and reimbursements	<u>17,975</u>	<u>184,714</u>	<u>202,689</u>	<u>222,520</u>
<b>Total operating revenue</b>	<u>2,863,015</u>	<u>3,483,011</u>	<u>6,346,026</u>	<u>6,366,360</u>
<b>OPERATING EXPENSES</b>				
Customer service	52,113	423,937	476,050	505,774
Sewer	<u>1,783,835</u>	<u>2,227,706</u>	<u>4,011,541</u>	<u>3,984,005</u>
<b>Total operating expense</b>	<u>1,835,948</u>	<u>2,651,643</u>	<u>4,487,591</u>	<u>4,489,779</u>
<b>Operating income before depreciation</b>	1,027,067	831,368	1,858,435	1,876,581
Depreciation and amortization expense	<u>(617,348)</u>	<u>(818,760)</u>	<u>(1,436,108)</u>	<u>(1,293,130)</u>
<b>OPERATING INCOME</b>	409,719	12,608	422,327	583,451
Non-operating income (expenses)				
Interest income	11,752	39,084	50,836	84,297
Interest expense	(1,263)	(92,190)	(93,453)	(111,015)
Bad debts recovered	-	9,449	9,449	9,355
Gain (loss) on sale of equipment	<u>-</u>	<u>(48,903)</u>	<u>(48,903)</u>	<u>15,895</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	420,208	(79,952)	340,256	581,983
Grants	-	1,383,176	1,383,176	1,313,553
Tap fees	-	8,700	8,700	22,052
Customer contributions	<u>436,310</u>	<u>455,475</u>	<u>891,785</u>	<u>1,184,582</u>
<b>CHANGE IN NET ASSETS</b>	856,518	1,767,399	2,623,917	3,102,170
Net assets, beginning of year	<u>18,909,979</u>	<u>20,884,669</u>	<u>39,794,648</u>	<u>36,692,478</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 19,766,497</u>	<u>\$ 22,652,068</u>	<u>\$ 42,418,565</u>	<u>\$ 39,794,648</u>

**HARDIN COUNTY WATER DISTRICT NO. 1**  
**COMBINED SEWER STATEMENTS OF CASH FLOWS**  
for the year ended December 31, 2011

	Ft. Knox Sewer	Radcliff Sewer	2011 Total	2010 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,097,618	\$ 3,251,284	\$ 6,348,902	\$ 6,218,866
Payments to suppliers	<u>(2,105,730)</u>	<u>(2,839,378)</u>	<u>(4,945,108)</u>	<u>(4,373,592)</u>
<b>Net cash provided by operating activities</b>	<u>991,888</u>	<u>411,906</u>	<u>1,403,794</u>	<u>1,845,274</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Contributions in aid of construction	436,310	1,391,876	1,828,186	1,206,632
Proceeds from sale of equipment	-	3,000	3,000	20,000
Acquisition and construction of capital assets	(964,415)	(1,848,082)	(2,812,497)	(3,166,510)
Principal paid on long-term debt	-	(258,447)	(258,447)	(408,899)
Interest paid on long-term debt	<u>(1,263)</u>	<u>(93,052)</u>	<u>(94,315)</u>	<u>(112,916)</u>
<b>Net cash (used in) capital and related financing activities</b>	<u>(529,368)</u>	<u>(804,705)</u>	<u>(1,334,073)</u>	<u>(2,461,693)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	11,752	41,895	53,647	97,882
Redemption of investments	-	770,165	770,165	2,560,023
Purchase of investments	<u>-</u>	<u>(335,230)</u>	<u>(335,230)</u>	<u>-</u>
<b>Net cash provided by investing activities</b>	<u>11,752</u>	<u>476,830</u>	<u>488,582</u>	<u>2,657,905</u>
<b>NET INCREASE IN CASH</b>	<u>474,272</u>	<u>84,031</u>	<u>558,303</u>	<u>2,041,486</u>
Cash and cash equivalents, beginning of year	<u>1,100,646</u>	<u>2,754,906</u>	<u>3,855,552</u>	<u>1,814,066</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,574,918</u>	<u>\$ 2,838,937</u>	<u>\$ 4,413,855</u>	<u>\$ 3,855,552</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 409,719	\$ 12,608	\$ 422,327	\$ 583,451
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	617,348	818,760	1,436,108	1,293,130
Change in assets and liabilities:				
Accounts receivable	256,640	10,338	266,978	107,474
Prepaid expenses	(4,814)	(8,924)	(13,738)	22,139
Inventory	(12,373)	-	(12,373)	-
Due from other funds	(17,388)	(209,566)	(226,954)	7,036
Accounts payable	(228,231)	(155,921)	(384,152)	19,307
Accrued expenses	(24,364)	(20,641)	(45,005)	76,313
Due to other funds	(4,649)	(32,499)	(37,148)	(262,004)
Other payables	<u>-</u>	<u>(2,249)</u>	<u>(2,249)</u>	<u>(1,572)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 991,888</u>	<u>\$ 411,906</u>	<u>\$ 1,403,794</u>	<u>\$ 1,845,274</u>
<b>Schedule of non-cash capital and financing activities:</b>				
Construction in process included in accounts payable	<u>\$ -</u>	<u>\$ 69,167</u>	<u>\$ 69,167</u>	<u>\$ -</u>

**HARDIN COUNTY WATER DISTRICT NO.1  
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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Board of Commissioners  
Hardin County Water District No.1  
Radcliff, Kentucky

We have audited the financial statements of Hardin County Water District No.1 as of and for the year ended December 31, 2011, and have issued our report thereon dated March 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hardin County Water District No.1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hardin County Water District No.1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hardin County Water District No.1's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County Water District No.1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This communication is intended solely for the information and use of management, Board of Commissioners and the Public Service Commission of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley, & Company*

Ray, Foley, Hensley, & Company, PLLC  
March 14, 2012